Chairman's Statement

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I am pleased to report that the Group has achieved satisfactory results over the past 12 months notwithstanding a challenging operating environment resulting from rising raw material and labour costs.

For the year ended 31st December, 2004, turnover increased 22.3% to HK$1,447.9 million (2003: HK$1,183.6 million), profit from operations increased 38.1% to HK$190.7 million (2003: HK$138.0 million). Consolidated net profits for 2004 was HK$ HK$164.2 million (2003: HK$256.8 million which includes gains on disposal of our interests in Converse Inc. of HK$134.6 million).

A final dividend of HK$0.072 per share has been recommended (2003: HK$0.06), making the full year dividend per share HK$0.10 compared with HK$0.08 in 2003.

Such growth would not have been possible without the dedication, commitment of our management team and the efficient line production staff, I take this opportunity to express my gratitude for all their hard work.

Cost increases continue to be a challenge for all in the manufacturing industry in China. As our key markets have been strong, we were able to maintain our profit margin. Labor cost throughout China is expected to continue to increase with inflation, although we are able to offset its effects through increases in operating efficiency. Our relatively shorter production runs enable us to reflect cost increases in contract prices. To counteract raw material price increases, we hedge our risks through forward purchase of basic raw materials, which is dependent on our ability to forecast our business volume with sufficient accuracy. Therefore, gross profit margin fluctuation in 2004 was minimal.

One of our key capacity expansion strategies is through acquisition. In July 2004, we successfully acquired production facilities in Fuzhou, adding a further 4 production lines to our 26 lines located in Zhongshan, Panyu and Dongguan respectively. The Group now has a total of 30 production lines.

The Group is committed to enhance corporate governance in all our operations through effective communication and transparent practices.

Chairman's Statement

LOOKING FORWARD

We believe that the global economy will continue to grow, and consumption will remain strong. Therefore, we expect 2005 to be a strong year for the Group.

Although the manufacturing industry as a whole in China will face cost issues in 2005, our group has been successful in maintaining our gross profit margin. We will continue to do our best to maintain our profit margin in the future, using proven strategies such as forward hedging of basic raw material costs, helping our customers to choose raw material alternatives, improving our operational efficiency, and management of our product mix.

As expected, China has become one of the fastest growing markets for athletic shoes and apparel. We believe growth will remain strong for the coming decade. As global brands are stepping up their marketing effort in China, they are looking for more than just suppliers of manufacturing services. The ideal China partner can provide a range of benefits, such as manufacture design, raw material selection, economies arising out of local supplies to local sales outlets, and financing. We started our local-to-local business activities in late 2004, and expect the resulting manufacturing business to be more stable and profitable. We aim to be the preferred local-to-local partner in China. By doing so, we aim to rise above intense price competition.

Chairman's Statement

ACKNOWLEDGEMENT

On behalf of our Board of Directors, I wish to thank all our customers, suppliers and shareholders for their continuous support. We would also like to thank our team of dedicated staff for their invaluable service and contribution throughout the year.

LI Kwok Lung, Alfred Ronald
Chairman

Hong Kong, 7th April 2005